

## Message Text

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ACTION NEA-10

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-03 H-02 INR-07 L-03

NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15 USIA-06

AID-05 COME-00 EB-07 FRB-03 TRSE-00 XMB-02 OPIC-03

CIEP-01 LAB-04 SIL-01 OMB-01 SAM-01 AGR-05 HEW-02

/091 W

----- 105840

R 291029Z MAY 75

FM AMEMBASSY CAIRO

TO SECSTATE WASHDC 4231

INFO AMEMBASSY BEIRUT POUCH

AMEMBASSY JIDDA

AMEMBASSY KUWAIT

AMEMBASSY TEHRAN

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EO 11652: NA

TAGS: USEFJC EGEN ETRD EG

SUBJECT: LIBERALIZATION OF ECONOMY: FURTHER

PROPOSED CHANGES

REF: CAIRO 5137

SUMMARY: EXTENSIVE COVERAGE CONTINUES TO BE GIVEN TO  
CABINET DECISIONS ON FURTHER STEPS TO LIBERALIZE ECONOMY IN  
ORDER ENCOURAGE DEVELOPMENT AND MEET NEEDS OF POPULATION.  
MEASURES RANGE FROM CHANGES IN PENSION LAWS TO REMOVAL  
OF IMPORT RESTRICTIONS ON PRIVATE SECTOR. APPROVAL BY  
PEOPLE'S ASSEMBLY IS REQUIRED, SEEMS ASSURED, BUT MAY  
TAKE SOME TIME. END SUMMARY

1. ALL PAPERS CONTINUE TO DEVOTE MAJOR COVERAGE TO ACTION  
OF CABINET IN APPROVING EXTENSIVE LIST OF DRAFT LAWS  
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DESIGNED TO INTRODUCE ADDITIONAL LIBERALIZATIONS INTO

ECONOMIC LIFE OF NATION. THEY RANGE IN IMPORTANCE FROM SALES OF SHARES IN PUBLIC COMPANIES TO DIVIDUALS (REFTEL) TO REMOVAL OF CUSTOMS DUTIES ON TEXT-BOOKS, BUT ALL ARE INTENDED TO MOVE EGYPT TOWARD LOOSENED CENTRAL CONTROL AND INCREASED ADVANTAGES FOR POPULATION. ALL OF THEM ARE MOST LIKELY TO PASS PEOPLE'S ASSEMBLY, ALTHOUGH SOME OF THEM MAY REQUIRE CONSIDERABLE TIME, AND MOST OF THEM WILL CLEARLY BE BENEFICIAL TO THE ECONOMY. AT LEAST ONE, HOWEVER, SEE PARA 3, IS OF QUESTIONABLE VALUE AND WILL BE COVERED IN GREATER DETAIL IN A SEPARATE REPORT.

2. FOREIGN TRADE. DRAFT LAW REVISING EGYPT'S IMPORT-EXPORT PROCEDURES IS EXPECTED TO BE SUBMITTED TO PEOPLE'S ASSEMBLY IN NEAR FUTURE. PRESS REPORTS INDICATE THAT IT WILL MARKEDLY ALTER PRESENT ARRANGEMENTS BY PERMITTING PRIVATE SECTOR TO MAKE OFFERS DIRECTLY TO DECISION COMMITTEES ON IMPORTS REQUIRED BY PUBLIC SECTOR, AS IS NOW DONE ONLY BY GOVT IMPORT COMPANIES, PROVIDED THAT MEANS FOR FINANCING ARE ALSO AVAILABLE. LIMITATION IS ALSO PLACED ON IMPORTS OF 15 SUBSIDIZED OR STRATEGIC COMMODITIES WHICH WILL CONTINUE TO BE HANDLED EXCLUSIVELY BY GOVERNMENTAL ORGANIZATIONS: WHEAT, FLOUR, MAIZE, BEANS, SESAME, LENTILS, SUGAR, EDIBLE AND INEDIBLE OILS, COTTON, TOBACCO, FERTILIZERS, COAL, PETROLEUM AND ITS PRODUCTS, INSECTICIDES, MILITARY SUPPLIES. IN ADDITION, IMPORTS FROM BILATERAL AGREEMENTS COUNTRIES WILL BE RESPONSIBILITY OF PUBLIC SECTOR. PRESS ALSO INDICATES THAT IMPORT PERMITS WILL BE ABOLISHED AND MINISTRY OF TRADE REORGANIZED TO PERMIT MORE RESPONSIVE AND EFFICIENT REACTION TO CHANGING REQUIREMENTS AND CIRCUMSTANCES.

(COMMENT: MOVE IS DESIGNED TO PROVIDE ADDITIONAL RESOURCES TO CVOER EGYPT'S IMPORT NEEDS, WHILE AT SAME TIME PROVIDING GREATER SPHERE OF ACTIVITY TO PRIVATE SECTOR. AVAILABILITY OF FINANCING TO COVER IMPORTS WILL BE DETERMINING FACTOR IN SUCCESS OF EFFORT, BUT THERE SEEMS TO BE LITTLE DOUBT IN MIDNS OF BOTH GOE AND THOSE IN POSITION TO KNOW THAT THERE ARE AMPLE RESOURCES BOTH WITHIN AND OUTSIDE COUNTRY WAITING ONLY FOR AN OPPORTUNITY TO PLAY A ROLE.)

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3. OWN CURRENCY IMPORTS. CLOSELY RELATED TO ABOVE MOVE, ADDITIONAL COMMODITIES WILL BE ADDED TO LIST OF GOODS THAT CAN BE IMPORTED THROUGH UTILIZATION OF PRIVATELY-HELD FOREIGN CURRENCY (CAIRO A-198 OF DEC, 1974) RAISING TOTAL TO 286. (COMMENT: WHILE THIS IS INDEED FURTHER LIBERALIZATION, THE ADDITIONAL DEMAND FOR FOREIGN EXCHANGE RESULTING FROM THE "OWN CURRENCY" PROGRAM HAS

RESULTED IN A BLACK MARKET EXCHANGE RATE CONSIDERABLY HIGHER THAN THAT PAID IN THE PARALLEL MARKET, DIVERTING FUNDS FROM THE PARALLEL MARKET, WHICH IS NOW WITHOUT HARD CURRENCY. A SEPARATE REPORT WILL COVER THIS SUBJECT.)

4. PENSIONS, SOCIAL SECURITY AND OLD AGE PENSIONS COVERAGE WILL BE EXTENDED TO PROVIDE COVERAGE FOR UP TO 8 MILLION CITIZENS (VICE 5.2 AT PRESENT) UNDER DRAFT LAW SUBMITTED TO ASSEMBLY. MAIN POINTS ARE SIGNIFICANT INCREASES IN AMOUNTS PROVIDED, AND EXTENSIVE LIBERALIZATION OF RULES GOVERNING ELIGIBILITY. (COMMENT: WHILE PROPOSED NEW PENSIONS ARE NOT LARGE BY US STANDARDS (OLD AGE PENSIONS LE 9.60 PER MONTH, WIDOW LE 7.80, THEY WILL PROVIDE MEASURE OF INCREASED SECURITY TO DIVORCEES, ORPHANS, WIDOWS, AND OTHER SURVIVORS. PRESENT SOCIAL INSURANCE SCHEME IS FAIRLY EFFECTIVE, MANDATORY FOR MOST EMPLOYEES IN BOTH PUBLIC AND PRIVATE SECTOR, AND RATHER COSTLY. NO MENTION HAS BEEN MADE OF WHAT NEW COVERAGE WILL COST OR HOW FUNDS WILL BE RAISED.)

5. HIGH COST OF LIVING ALLOWANCE. CABINET HAS ANNOUNCED ITS APPROVAL OF PROPOSAL TO EXTEND COST OF LIVING ALLOWANCE SCHEME ANNOUNCED BY PRESIDENT SADAT ON MAY 1 (CAIRO 4429) TO EMPLOYEES OF PRIVATE SECTOR. MECHANISM BY WHICH THIS WILL BE ACCOMPLISHED IS NOT MENTIONED, BUT JUNE 1 WAS GIVEN AS EFFECTIVE DATE. (COMMENT: AS YET, THERE HAS BEEN NO FURTHER MOVEMENT ON APPLICATION OF ALLOWANCE TO PUBLIC SECTOR INsofar AS RULES AND REGULATIONS ARE CONCERNED. IN FACT, PRESS HAS HAD HARDLY ANYTHING TO SAY ON SUBJECT SINCE DAY FOLLOWING INITIAL ANNOUNCEMENT. IMPLEMENTATION OF A GOVERNMENTALLY DECREED ALLOWANCE IN PRIVATE SECTOR IS BY DEFINITION A PROBLEM. INCREASE IN MINIMUM WAGE IS ONE POSSIBILITY, BUT THIS DOES NOT ALLOW FOR VARIOUS LIMITED OFFICIAL USE

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PERCENTAGES ACCORDING TO SIZE OF FAMILY AS DO RULES FOR PUBLIC SECTOR. CHANGES IN SOCIAL INSURANCE WILL NOT WORK SINCE EMPLOYEE DOES NOT RECEIVE EMPLOYERS' CONTRIBUTION. PRIVATE SECTOR BUSINESSMEN ARE BOTH AMUSED AND BEMUSED BY ANNOUNCEMENT, BUT AGREE THAT EMPLOYEES WILL DEMAND THE INCREASE AS SOON AS IT IS OFFICIALLY PROMULGATED.)

6. BANKING. IN ADDITION TO PROPOSALS FOR MODIFYING EXISTING BANKING STRUCTURE THAT WERE REPORTED EARLIER (CAIRO 4774) PRESS SAYS CENTRAL BANK WILL BE FREED FROM RULES GOVERNING PUBLIC ORGANIZATIONS (PROBABLY THOSE CONCERNING SALARIES) AND WILL OPEN BRANCHES IN EGYPT AND ABROAD. (COMMENT: GOE'S EFFORTS TO REWORK BANKING SYSTEM HAVE BEEN GOING ON FOR CONSIDERABLE TIME, AND REFLECT ORGANIZATIONAL

AS WELL AS POLITICAL DIFFICULTIES OF FITTING A SOCIEALIZED  
FINANCIAL STRUCTURE INTO AN OPEN DOOR ECONOMY. THIS IS  
PROBABLY MOST COMPLICATED OF ISSUES ON WHICH GOVERNMENT  
IS WORKING, INVOLVING AS IT DOES A VERY FUNDAMENTAL  
ASPECT OF ARAB SOCIALISM, AND MAY WELL BE THE LAST TO BE  
RESOLVED.)

7. GENERAL COMMENT: PEOPLE'S ASSEMBLY IS REPORTED  
TO BE HEAVILY IN FAVOR OF MAJORITY OF PROPOSALS. ASSEMBLY'S  
REPLY TO POLICY STATEMENT PRIMIN MADE EARLIER THIS MONTH  
EXPRESSED UNANIMOUS SUPPORT FOR LIBERALIZATION IN BOTH  
GENERAL AND SPECIFIC TERMS. TIME REQUIRED FOR NECESSARY  
ACTIONS, HOWEVER, IS AS ALWAYS LESS PREDICTABLE.  
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